# July 2018 Monthly Commentary

Everything (save oil) made lows early in the month and then stabilized/rallied into the end of the month. Beans broke almost $2.50 and bottomed near $8.20. High yields and China trade issues (in my opinion) were discounted at this level. Corn broke well below value given current fundamentals and discounted a 180+ yield in the mid-three dollar range. Wheat woke up to the issues in the EU/FSU/Australia/Canada. For the month, corn rallied 13 cents with Chgo wheat up 53. KC and Mpls were both up 68-69. HRS tours revealed things were not as great as expected and Canada is dealing with hot/dry issues in southwest growing areas. Beans were up 40 cents for the month with meal up $10.70. Oil, on the backside, was down 50 points.

All the risks I have been talking about for a few months have come to fruition in wheat with EU and Russian FOB values rallying roughly $30/ton since early July. EU crop estimates continue to diminish as does their exportable surplus to the tune of 10 mmt below what the USDA published in July. Russia is having issues with poor quality due to rains at harvest and Ukraine's crop and exports will likely end up being 2-3 mmt below what the USDA is forecasting. Australia's crop is centering around 20 mmt (some 18 mmt and lower) while the USDA is at 22 with exports forecast at 16 mmt (2-4 mmt too high). Both the spring wheat crops in the US and Canada will need to be revised lower. The major exporter balance is shaping up to be nearly as tight as 07/08. World FOB values should have a ways to go and US wheat should eventually be the cheapest. Right now it is close and US business should pick up. Even with wheat feeding down and world trade down, US exports could be 1200+. US wheat will have to be incentivized out of storage. After the big up on August 2nd, wheat can back off a bit and consolidate but should firm into the August USDA report. I will continue to trade from the long side as wheat may have another 50-150 cents to go.

Corn discounted a well above record yield with the 80 cent break from late May to early July. There was heat in early July with overnight lows well above normal which may have caused damage. Early flooding in the northwest Corn Belt could also be an issue. The last item is that after early July, conditions turned sneakily drier. In addition, August may end up on the warm/dry side – not ideal finishing weather. The other issue in corn is demand. Old crop exports should end up near 2400 with new crop in the 2400-2600 range (USDA was 2225 milbus in July). Given the South American short crops and EU shortfalls (currently in a hot/dry spell), US exports should be a record this year. US and Argentine corn are the cheapest in the world currently. EU wheat feeding will be down with maize feeding up and their corn imports could be 20-21 mmt this year. This compares to 16.5 mmt last year and the USDA forecast at 16.0 mmt. US ending stocks will end up in a range of 1200-1600 depending on yield and exports. This would result in a stocks to use of 8-11%. This compares to carry out in 17/18 of 2000 milbus with a stocks to use of 13.5%. Upside is considerably more than downside from current levels. If yields are lower due to the heat or excessive rain, it probably won't be realized until October.



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The bean market will trade yield ideas and weather over the next month. Dryish with warm spells may not be ideal. Most have written off China in the US export line up, so if things get resolved, we will have a sharp rally. If tensions continue to run high and yields are big, we can make new lows but it probably won't be until harvest. I'm not doing much in beans given political risks and given that there are better opportunities in corn and wheat. Still think meal spreads can tighten further, but I had expected Argentine values to firm by now.

Regards,

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